

1 DEPARTMENT OF ENERGY

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3
4 MEETING OF THE
5 NATIONAL PETROLEUM COUNCIL

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7
8 Auditorium
9 James Forrestal Building
10 L'Enfant Plaza
11 Washington, D. C.
12 Wednesday, June 11, 1980

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17 REPORTER'S TRANSCRIPT

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26 Reported by: Phyllis P. Young

The meeting convened at 9:05 a.m., pursuant to notice, Chairman C. H. Murphy, Jr., presiding.

DEPARTMENT OF ENERGY STAFF:

HONORABLE CHARLES W. DUNCAN, JR.
Secretary of Energy

HONORABLE RUTH M. DAVIS
Assistant Secretary
Resource Applications

COUNCIL MEMBERS ATTENDING: (See Appendix for complete membership list and affiliation.)

C. H. MURPHY, JR.	Chairman
H. J. HAYNES	Vice Chairman
JOHN F. BOOKOUT	Chairman, Unconventional Gas Sources
JERRY MC AFEE	Chairman, Refinery Flexibility
JACK M. ALLEN	
ROBERT O. ANDERSON	
JOHN A. CARVER, JR.	
FRED C. CHAMBERS	
COLLIS P. CHANDLER, JR.	
ROY T. DURST	
JAMES H. EVANS	
JOHN E. FAHERTY	
C. C. GARVIN, JR.	
JAMES F. GARY	

1 MELVIN H. GERTZ
2 MAURICE F. GRANVILLE
3 DAVID B. GRAHAM
4 JAKE L. HAMON
5 H. J. HAYNES
6 ROBERT A. HEFNER, III
7 H. D. HOOPMAN
8 MARY HUDSON
9 THOMAS L. KIMBALL
10 D. A. MC GEE
11 DAVID C. MASSELLI
12 F. R. MAYER
13 C. JOHN MILLER
14 ROBERT MOSBACHER
15 JOHN H. MURRELL
16 IRA S. NORDLICHT
17 R. L. O'SHIELDS
18 T. BOONE PICKENS, JR.
19 FRANK L. PITTS
20 JAMES C. ROSAPEPE
21 ROBERT V. SELLERS
22 J. J. SIMMONS, JR.
23 ROBERT E. THOMAS
24 JOHN F. WARREN
25 LEE C. WHITE

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NATIONAL PETROLEUM COUNCIL STAFF:

MARSHALL W. NICHOLS Executive Director

MEMBERS SENDING ALTERNATES: (See Appendix for complete membership list and affiliation)

RAWLEIGH WARNER, JR. ROBERT B. ANDREWS

J. N. WARREN BILL L. BRANNAN

JOHN A. KANEB JOHN BUCKLEY

FRED L. HARTLEY E. W. COLE

ROBERT F. GOSS FRANK COLLINS

E. H. CLARK, JR. JAMES DRESHER

R. E. BAILEY F. E. ELLIS

THEODORE SHYDER, JR. BROCK EVANS

GEORGE F. KIRBY BARNET GROTEN

F. D. GOTTWALD, JR. ART HELWIG

LEON HESS PHIL KRAMER

JOSEPH H. WILLIAMS VERNON T. JONES

THEODORE A. BURTIS JOHN OLSEN

JOHN E. SWEARINGEN W. R. PEIRSON

JAMES L. KETELSEN CLIFFORD W. RACKLEY

I. JON BRUMLEY S. GORDON REESE, JR.

FRANK E. FITZSIMMONS DONALD F. RODGERS

W. F. MARTIN CARSTENS SLACK

PETER MAC DONALD ED GEBRIEL

ROBERT E. YANCEY LLOYD BUSCH

RUTH J. HINERFELD ISABELLE WEBER

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PETERSON GETTY

ROBERT STEWART

MEMBERS NOT ATTENDING: (See Appendix for complete membership list and affiliation)

The following reports were received, issued or approved by the Committee:

Refinery Flexibility Progress Report

Unconventional Gas Sources Interim Report

The meeting was open to the public and the public was invited to participate or make comments at 11:10 a.m.

42 members of the public were in attendance.

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P R O C E E D I N G S

CHAIRMAN MURPHY: Good morning, ladies and gentlemen. This, the 79th meeting of the National Petroleum Council, will come to order.

Ladies and gentlemen, you have before you a copy of this morning's agenda. Presumably, we will have a check-in system to constitute a reasonable record of attendance this morning. So, I will ask the secretary to see that that is done. If you have not checked in, please do so.

At the head table, I will introduce the people. As you see them, to my left, Marshall Nichols, Executive Director of the Council, Harold Haynes, our Vice Chairman, and we are very glad to have with us this morning, the Honorable Ruth Davis, Assistant Secretary of Energy for Resource Application.

Dr. Davis, it is special to have you here. We have already begun to work with you, and feel that you are equipped for this task, and I am sure you will respond to it. If you would like to say something, we will be attentive at this moment.

ASSISTANT SECRETARY DAVIS: Let me just comment, Charlie, that this is the first time I have had the opportunity to meet with this Council. My office does have a responsibility for liaison and support of the Petroleum

1 Council's activities with the Department. I think it is
2 an area of interaction between the Department and industry
3 not only important for the historical precedence you have
4 set and for contribution, but it is more important now
5 than it ever has been.

6 I am quite convinced that our ability to achieve
7 the diversified energy supply that the secretary has said
8 is one of the goals dependent upon the very important in-
9 creased development in the petroleum area, and it is going
10 to be my responsibility, and has been, to aggressively
11 pursue the supply side of the energy security and the
12 energy policy of the Department, so I'm going to be looking
13 forward to working with you in a very interactive and a
14 very intensive way.

15 CHAIRMAN MURPHY: Thank you, Dr. Davis.

16 The Secretary has appointed some new members
17 who are present this morning, Mr. John E. Faherty of New
18 Orleans, President of Crown Oil and Chemical Company; Mr.
19 David B. Graham who is General Counsel of The Velsicol
20 Chemical Company. I believe these gentlemen are present.

21 We welcome you to the affairs of the Council.

22 (Applause.)

23 I believe Mr. Nordlicht has come in.

24 (Applause.)

25 To your far left is John Bookout, Chairman of

1 the Unconventional Gas Study, who will make a report later;
2 Mr. McAfee, Chairman of the Refinery Flexibility.

3 Now we come to the piece de resistance, on my
4 right, the Honorable Charles W. Duncan, Secretary of Energy,
5 to whom we are responsible. Mr. Secretary?

6 SECRETARY DUNCAN: Thank you very much, Mr.
7 Murphy. I would like to second the remarks Ruth Davis
8 made about the employments of the Council to our delibera-
9 tions of decisions and the seriousness with which we take
10 the work.

11 As I told the Chairman, we are interested in the
12 two reports we are going to be hearing about this morning.
13 I would like to take this opportunity to compliment Mr.
14 Murphy on the leadership that he has given the Council.

15 This is a tremendously valuable resource for the
16 Department of Energy and all Americans, who are benefici-
17 aries of what you do. And I just want to register this
18 morning, my keen appreciation for your duties. I know
19 it is time-consuming, it involves a lot of your people
20 and involves a very tangible commitment, and it is extremely
21 worthwhile, in my judgment.

22 The Council has now completed the studies that
23 were requested by Secretary Schlesinger on materials and
24 manpower and on storage and transportation capacities.
25 These were very good studies and they have been very widely

1 circulated throughout government, and they have been ex-
2 tremely helpful.

3 I know we will be hearing this morning, reports
4 on the Unconventional Gas Study, and that some three por-
5 tions of that study and an interim study are going to be
6 available to be given to us this month. The two final
7 sections, I believe, will be later this year, and we look
8 forward to that because has the potential of being a tre-
9 mendous resource for this country.

10 I am particularly interested in the Refinery
11 Policy Study. As we move on later in the year, Congress
12 is going to be very active in this area. We have already
13 had some discussion with people in the Congress that have
14 an interest in the area, and I can assure you that this
15 study is going to play an important part in forming our
16 own personal attitudes about this issue.

17 I was so interested in how this was moving that
18 I asked for an interim report and have received that some
19 few weeks ago. I have recently asked for three additional
20 studies from the National Petroleum Council, in three very
21 important areas and, over the next 18 months, I am going
22 to be very interested in seeing how those progress.

23 The first is Arctic exploration and development,
24 to look at the potential we have in the Arctic for gas
25 exploration and to look at what the barriers are. We have

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1 asked for an analysis of the potential, the problems, the
2 prospects and the recommended steps for realizing the
3 potential in this area, and we want the government to play
4 a positive role in facilitating that development, and I
5 think that your study can help us do that, and can help
6 us learn how to move in the right direction.

7 The second study that I've asked for is environ-
8 mental conservation, and that is really an updating of
9 the study that you did in 1971 on the conservation aspects
10 of the petroleum industry. That was a very comprehensive
11 report, it was a very good report, but a lot has happened
12 since 1971.

13 The scope and extent of environmental law and
14 regulation has changed very significantly, and I think
15 the petroleum producer today faces a completely different
16 world in this area, and I think it is important that we
17 update that study in a comprehensive way. I am sure we
18 can benefit by the conclusions in the study.

19 The last is emergency preparedness planning. I
20 have asked the Council to continue its long tradition of
21 analytic support for emergency preparedness planning, to
22 help cope, to help us think about how to cope with possible
23 interruptions of petroleum imports.

24 On two previous occasions, one in 1974 and one
25 in 1975, the NPC has given us a substantial analytic report

1 that was very heavily relied on by DOE's predecessor
2 agency, and by the Congress in developing emergency pre-
3 paredness plans.

4 We have asked you to work very closely with Mr.
5 Bart House, who is the person in our organization that we
6 have assigned to handle this responsibility, and I am sure
7 that the interaction is going to be very helpful, and that
8 the study is going to be very helpful.

9 I didn't have any really formal comments to make
10 today, and I don't intend to make a speech on petroleum
11 business. That is something you gentlemen know as much
12 or more about than I do, but there are just one or two
13 points I would like to make very briefly, before we go into
14 the Q and A session.

15 It is my judgment, and I hope I am accurate when
16 I say that the energy program is beginning to work, and it
17 is beginning to work particularly because of the President's
18 decision to decontrol the price of crude oil.

19 We have created an incentive to conserve, which
20 is long overdue, and we have achieved substantial conserva-
21 tion this year compared to the same period of time in 1979.
22 Oil imports are down about a million barrels a day, which
23 is around 12 percent; consumption of gasoline is down around
24 600,000 barrels a day, around 8 percent.

25 And we have also created an environment for more

1 exploration even with the "disincentive" of the windfall
2 profits tax.

3 I was told that as of Monday of this week, the
4 source said that there were 2,806 drilling rigs active in
5 America on Monday of this week, and that's more than at
6 anytime since December of 1956. So, there is more drilling
7 activity in the U.S. today than there has been in 24 years.

8 The decontrol of crude oil prices has also
9 created the incentive for the development of alternative
10 fuels, and American industry is beginning to respond.
11 There's a lot of momentum there.

12 We don't have synthetic fuels plans on-stream
13 today except on gasohol, but there is a lot of momentum
14 -- oil shale, coal gasification, coal liquefaction,
15 unconventional gas are things that you hear more and more
16 about, and I would anticipate there is going to be tremen-
17 dous momentum in 1981, 1982 and through the decade of the
18 '80s.

19 The legislative program is moving towards con-
20 clusion. I think the three major pieces of legislation
21 are already out of Conference, either are now law or are
22 in final stages of drafting -- that's the Energy Mobiliza-
23 tion Board, the windfall profits tax, Senate Bill 932, the
24 comprehensive energy legislation involving the synthetic
25 fuels corporation and conservation titles and many other

1 titles, and the utility oil backout legislation is moving
2 very well through the Senate. I think that's a very im-
3 portant piece of legislation and, of course, we will have
4 to beef up again, to get it moving through the House.

5 The other area I thought I might mention to you
6 very briefly is the international area. We've been working
7 very hard with both the producing and the consuming nations
8 around the world, through the mechanism of the International
9 Energy Agency, to try to get them to go along with pro-
10 grams respecting conservation, programs respecting the
11 development of alternatives, programs respecting imposing
12 limitations on the amount of oil we import, so that the
13 effective actions that we might take here in America are
14 not eroded by their inaction or their taking less stringent
15 action in some of their countries.

16 If we do a remarkable job in reducing our
17 petroleum imports and they continue to expand their im-
18 ports, that can erode the effectiveness, obviously, of
19 what we can do, and our collective dependence on foreign
20 oil is very important.

21 The results of the OPEC meeting in Algiers are
22 still not perfectly clear. I've talked about it quite a
23 bit this morning, and some of you may have more information
24 on that than I do, but my information is as follows: The
25 communique is ambiguous, but one thing is perfectly clear

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1 to me and that is that any price increase, based on tra-
2 ditional economic criteria, is not justified at this time.

3 The actions of some of these OPEC countries can-
4 not be regarded as being responsible -- those that agreed
5 to take these price increases. I am told that Qatar has
6 gone up \$2 effective immediately, that Kuwait is going up
7 \$2 effective July 1, that Venezuela has announced it will
8 go up \$2 but without any date, and that Saudi Arabia and
9 the United Arab Emirates have announced that they are not
10 willing to increase prices.

11 Algeria and Libya, of course, are two keys be-
12 cause they are at the higher end of the range, and the
13 decision respecting price agreed to by most of the
14 countries was that they would go to the market price of
15 \$32 and then have a \$5 range over and above that price,
16 so the issue then becomes, what is going to happen to the
17 exploration premiums in Algeria and Libya because that
18 would take them beyond the \$37 if those exploration pre-
19 miums are recognized.

20 They also announced the timing of future meetings,
21 which might be of interest to this group. Mr. Yamani was
22 instructed to develop and action plan for the long-term
23 strategy meeting which will take place, I'm told, in
24 September.

25 There will be a meeting of the heads of state

1 of the OPEC countries, which is currently scheduled for
2 Baghdad November 4th to the 6th, and they've set the date
3 for the OPEC ministerial meeting, the traditional December
4 meeting, to take place on December 15th in Kumbawa.

5 The positions reportedly taken -- and I under-
6 line the word "reportedly" because I'm not that certain of
7 my facts -- by Saudi Arabia and the UAE on both price and
8 production, and the positions they held throughout the
9 meeting are very reasonable and very responsible, in my
10 judgment.

11 In the various discussions that I've had with
12 the moderate producers, while they sense a responsibility
13 to facilitate this transition from oil dependence towards
14 what I call energy diversification, and they know that
15 it is in their economic disinterest, their national security
16 disinterest, that there be economic chaos or economic
17 recession or that the western world fall into economic
18 disarray because of the continued increases of oil prices
19 that we have seen.

20 One thing that I have noted, too, in the inter-
21 national area both on the part of producing countries and
22 consuming countries, is their recognition of the fact that
23 we are really beginning to move with our energy program
24 both in conservation and the development of alternatives
25 at the International Energy Agency meeting in Paris several

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1 weeks ago and discussion that I've had, that I'll continue
2 to have over time with various producing countries.

3 I think there is a real recognition, perhaps
4 even more so than there is here in America, that we are
5 really beginning to tie things together to have an energy
6 plan which is beginning to move things -- admittedly an
7 imperfect plan, but at least we have programs where things
8 are beginning to happen and things are moving, the conser-
9 vation fee which was not accepted by the Congress notwith-
10 standing, I think that that is a fact.

11 And they were very disappointed with congressional
12 action on the conservation fee and very supportive of our
13 initiative to impose that fee, saying to me and to others
14 in this Department, that we were finally beginning to do
15 the right thing.

16 As you know, the fee that we have talked about
17 was so much less than what most industrialized nations
18 around the world charge. I was extremely disappointed
19 with congressional action on the conservation fee because
20 it demonstrates a lack of political will to do what I think
21 is necessary, and the issue is not what you might say in
22 terms of barrels of oil imported, the issue is what is all
23 of the oil we use going to cost us.

24 At the IEA meeting in Paris, there was talk
25 about stock management. I think, and many people think,

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1 that we need to develop some system other than the IEA
2 trigger. We talked about the management crises, and there
3 is going to be some attention given to that.

4 There was some concern expressed about our
5 strategic petroleum reserve and what our attitudes might
6 be respecting the filling of that reserve, the timing of
7 the filling and what effect that might have on the inter-
8 national oil market. And there was some discussion, too,
9 about the concerted action of some countries and companies
10 respecting not reaching to pay unusually high prices, such
11 as the recent Iranian crisis and the Japanese.

12 I want to say, again, that I am pleased to be
13 here with you gentlemen this morning, you ladies and
14 gentlemen, and to have this opportunity to talk with you,
15 and the contribution that you make to this Department,
16 believe me -- and I say this with great sincerity -- is
17 very, very substantial. It is recognized, and I don't
18 think I can say it often enough.

19 I'm looking forward to the receipt of the studies
20 that we are about to receive now, I look forward to seeing
21 the work that you do on the three studies that I've asked
22 you to do, and we appreciate very much your contribution
23 to us. Thank you.

24 (Applause.)

25 CHAIRMAN MURPHY: Thank you very much, Mr.

1 Secretary.

2 Ladies and gentlemen, the Secretary has expressed
3 not only a willingness but a desire to answer your ques-
4 tions and to engage in a deliberative process here. The
5 floor is open. Who wishes to be first?

6 MR. MC AFEE: Well, I'll stick my neck out, Mr.
7 Chairman. I was encouraged to hear what the Secretary
8 had to say about his contacts with both consuming countries
9 and producing countries, and I wonder if there is anything
10 further he might be able to say about the prospects in
11 the foreseeable future, of getting a meaningful negotiation
12 started between the producing countries, on the one hand,
13 and the consuming countries, on the other, in an effort to
14 bring some order out of the present chaos.

15 SECRETARY DUNCAN: Well, I think that one thing
16 that had to happen before we have meaningful dialogue
17 between producers and consumers is to get our own house
18 in order -- we, the consuming nations of the world.

19 I think we have made remarkable progress within
20 the International Energy Agency, in causing that to happen.
21 I don't want to overstate the amount of progress that we
22 have made, but there seems to be an increasing desire on
23 the part of the consuming countries -- there's some recal-
24 citrance -- but there is an increasing desire to do what
25 is necessary to constrain imports.

1 There is a greater sense of the collective
2 necessity of doing those things which are going to be
3 really meaningful respecting conservation and the develop-
4 ment of alternatives.

5 I think that the summit meeting about to be
6 held in Venice is going to have a good energy -- that the
7 section of the communique concerning energy is going to be
8 a good section. We talked in the IEA in Paris several
9 weeks ago, about the importance of all member nations
10 reducing their dependence on oil, the oil component of
11 their total energy requirement, down to 40 percent or
12 below; that they get the ratio of growth in energy consump-
13 tion to growth in gross national product down to a ratio
14 of .6 or below.

15 So, I think that we are making progress respect-
16 ing cohesion among the consuming countries. Now, given
17 that, I think that you move towards the time when good
18 dialogue ought to take place. I would like to see that
19 take place rather soon, would be my own judgment.

20 I think to have done it before sometime late
21 this year, however, might be premature, but on issues
22 where there is a common interest, where there is a good
23 possibility of being able to have a unanimity of view,
24 I think it would be good, with a carefully selected agenda,
25 with a carefully selected group of countries to begin to

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1 have some dialogue.

2 Now, one example of such a matter might be
3 assistance for the less developed countries. The less
4 developed countries, the producing countries and the major
5 consuming countries have a common desire, to see what can
6 be done to assist the less developed countries in managing
7 the burden of higher energy prices, to see what can be
8 done respecting assisting them in conservation measures,
9 assisting them in the development of alternatives.

10 Now, where you have an item like that, where
11 there is a common interest, maybe there is a possibility
12 of some progress. That's an example of the kind of thing
13 that it might be good to talk about. I don't think there
14 should be high expectations, though, of any really meaning-
15 ful action.

16 MR. MILLER: Mr. Secretary, John Miller from
17 Michigan. I think the entire industry is appreciative of
18 the steps that have been taken to allow the acceleration
19 of domestic production, and I think your recognition of
20 the increase in rig activity is proper and appropriate,
21 but I also think that we would be ill-advised if we didn't
22 also think that if we are applauding ourselves for having
23 a mid 1950 rig count, we would necessarily also have to
24 compare our energy requirements in the mid 1950s to today,
25 our imports mid 1950s to today, our surplus-producing

1 capacity mid 1950s to today.

2 My point being that the problem has increased
3 greatly, and we have to greatly accelerate beyond the mid
4 1950 rig count if this country is ever again going to be
5 energy self-sufficient.

6 And we are also going to have to have public
7 policies that do not take large amounts of public land out
8 of the development process, and also policies that encourage
9 quick permitting on lands that have been deemed open for
10 exploration.

11 The problem is great. We commend you for the
12 steps that have been taken, but I really feel that the
13 industry does not sense that we have, at this time, a
14 comprehensive energy policy that takes all of these things
15 into account so that we can develop all energy in this
16 country.

17 SECRETARY DUNCAN: I think the comments you've
18 made are undoubtedly valid, and also the rigs we have today,
19 I'm told, and the way we're going, the depth of our drilling,
20 that some of that activity -- not enough of it maybe -- is
21 on the Outer Continental Shelf Arctic areas where drilling
22 is much more difficult.

23 I'm sure the bulk of that drilling, though, is
24 in the lower 48 states, but you know one thing I think
25 we have to do is address the issue of added supply in all

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1 forms, not just oil and gas but all forms.

2 One thing I was encouraged to see happen recently
3 was the recommencing of the licensing of nuclear power
4 plants, for example. There have been three of them given
5 operating licenses in the past few weeks.

6 I think we need to do what we can, and our Depart-
7 ment is increasingly active in working with the Department
8 of Interior on leasing policy. There is some acceleration
9 in the numbers of leases that are going to -- the numbers
10 of sales that are going to take place between now and
11 1985.

12 As recently as this morning, the lady on my
13 left, Ruth Davis, has told me that she thinks there is
14 also the issue of timing, and you have to look beyond just
15 numbers, to get a true picture.

16 I think there are a lot of areas that we need
17 to address. We've had two national energy plans, and the
18 Congress mandates that we have a national energy plan
19 every other year. There was an NEP-1 in 1977, an NEP-2
20 in 1979, and we will be required to give one to the Congress,
21 NEP-3, in the Spring of 1981.

22 Now, I'm approaching this one somewhat differ-
23 ently from the first two. Conditions have changed since
24 the preparation of the first two. And I want to emphasize
25 the question both of conservation and supply, in a rather

1 aggressive way, and not just within this Department but
2 on an interagency basis.

3 For example, one of the inconsistencies between
4 the DOE regulations and KWPS regulations that needs to be
5 addressed in order to facilitate energy supply, what needs
6 to be done to facility energy supply? What changes need
7 to be made, if any, in the granting of operating licenses
8 by the Nuclear Regulatory Commission, to facilitate
9 supply? What are things that we could do to more aggres-
10 sively add to the supply of energy in all forms?

11 I see this as "the" most important activity
12 that this Department will be addressing in the balance
13 of this year. The legislation is pretty well wound up
14 now. I would hope that in the next few weeks that we will
15 be through that. That's been a very significant and massive
16 amount of work involved, on our part. What I want to
17 address myself to is the very issue that you talked about
18 in the form of a National Energy Plan-3.

19 We've already contacted many of you. We've gone
20 out to industry people, we've gone out to academics, we've
21 gone out to many different groups respecting this issue,
22 and we've gotten some extremely good responses, and we
23 have gotten some ideas respecting the relationship of
24 where gas might be a factor in reserves; those kinds of
25 issues we are beginning to analyze, and I think -- I would

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1 hope that we can have a very meaningful product that would
2 put us further down the road, as you mentioned.

3 CHAIRMAN MURPHY: Next question, or next presen-
4 tation? Yes, Mr. Hefner?

5 MR. HEFNER: Mr. Secretary, I'm Robert Hefner.
6 Every chance I get, I like to talk about one of the
7 bright spots or pieces of optimism I think we can and are
8 having in our energy policy, and that is that in addition
9 to all that you've said was beginning to work, I believe
10 that certainly in one area the Natural Gas Policy Act is
11 working very well.

12 It shows that the marketplace really is doing
13 its job. Deep gas, as you know, is closely regulated and
14 not subject to any punitive tax. An example of what has
15 happened in the division where our company operates is
16 that in 1978, there was \$1 billion spent in the entire
17 country, in drilling for deep gas.

18 In 1980, there will be at least \$1 billion, if
19 not more, spent in the Anadarko. That will result in over
20 300 wells being drilled and, if our statistics hold, we
21 will discover some 2.4 trillion, and that equals, in 1979,
22 compares in 1979 with new field discoveries of 2.6 trillion.
23 So, I think it's a bright spot that we can show there that
24 the marketplace is working, and we need to continue to
25 push for improvement in the Natural Gas Policy Act as it

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1 exists.

2 I would like to point out that there could be
3 an error to Mr. Murphy, in which you said in the lower
4 48 states we are depleting our proved reserves of oil and
5 gas twice as fast as we are finding new reserves. I think,
6 in the case of gas, that's turned around in 1979. There
7 is some question about the statistics, but I feel very
8 certain that that will have turned around in 1980, and we
9 look at the natural gas side of the industry to have in-
10 creased productive capacity by 1985 at least equivalent
11 to 2 million barrels a day.

12 SECRETARY DUNCAN: Thank you very much for those
13 observations.

14 MR. RODGERS: Mr. Secretary, Don Rodgers, Inter-
15 national Brotherhood of Teamsters. We tend to deal with
16 basis as much as possible.

17 Much of what really bothers us is, if we were
18 to get cutoff tomorrow from Near East oil, is this country
19 as ready as it should be and, if not, then what do you
20 think we should be doing?

21 SECRETARY DUNCAN: Well, I think one thing we
22 have done is to pass the increase in the areas we have
23 just discussed, and another thing we have done is to set
24 up an activity, an interorganization entity within the
25 Department that is going to exercise every day management

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1 of this responsibility, this is going to be their activity.
2 Mr. Bart House is heading that activity -- and he's in the
3 room right now, I saw him as I walked in -- and we have
4 taken one of our very senior people and have given them
5 the responsibility for this.

6 The thing that we need to do right now is to
7 cut dramatically our use of oil, our dependence on oil.
8 That's what the conservation treaty is about, that's
9 what the utility oil backout legislation is about, and
10 that's why I'm so encouraged by the results we've achieved
11 in the first five months of this year compared to the
12 first five months of 1979.

13 Now, there's lots of reasons for that. One is
14 economic activity, the second is price, and we're seeing
15 that price demand elasticity is maybe more than we thought
16 it might be a year ago but, basically, we've got to do what
17 we can to conserve, and we've got to do what we can to
18 encourage use of alternatives.

19 We've got to begin burning more coal now in
20 utility plants. We've got to get passed the utility oil
21 backout legislation. We've got to move aggressively with
22 things like coal-oil mixtures and atmospheric fluidized
23 beds.

24 I was very happy, as I said earlier, to see our
25 recommencing of the licensing of these nuclear power plants.

1 The average nuclear power plant is 1 megawatt which is
2 equivalent to about 25,000 barrels of oil a day, and that
3 is a very, very substantial savings.

4 We also have to have mandatory demand restraint
5 measures -- we use if we have to. We have gone out to
6 the states with a voluntary conservation target, and the
7 states are now developing their plans towards the imple-
8 mentation of those targets, but I think the potential
9 there is not sufficient to be able to manage a very serious
10 drop in our supply of imported oil, and that's the reason
11 for the standby rationing bill. I underline the word
12 "standby" because no one contemplates the early implementa-
13 tion of the rationing bill.

14 I think that is almost a last resort. I'm not
15 an advocate of rationing but, in the extreme supply inter-
16 ruption, you would have to go to a plan like that, and we
17 do have the best plan we could devise. I don't suggest
18 to you that the plan is perfect, I believe there is no such
19 thing as a perfect rationing plan. There is no way to
20 get one that is completely equitable, and there is no way
21 to manage one with complete equity. The bureaucratic
22 morass you would create is really -- but, still, we have
23 to have one on the shelf.

24 We and the Congress worked together to get that,
25 and we do have one, and it will be submitted to the Congress

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1 for the Congress to look at for a while, but you have to
2 be able to do what you can right now, every day, to cut
3 consumption. We should move aggressively to back out oil
4 wherever we can.

5 We should move aggressively to develop alterna-
6 tives, but that's a long-term proposition, the development
7 of alternatives, and we need to have regulatory measures,
8 such as the standby rationing plan, which we can impose
9 and have sufficient flexibility to meet any level of
10 interruption.

11 MR. ANDERSON: Apropos of John Miller's comments
12 of 2800 rigs is a refreshing change after the last 20
13 years, but, still, it is a relatively modest number when
14 one compares it against the 1950s.

15 And just thinking on these comments, if we
16 arbitrarily assume that we maybe should go to a 50 percent
17 higher level, maybe the national increase, the tremendous
18 effort that would be required to bring our activity from
19 2800 to over 4,000.

20 It would be a commitment of major national im-
21 portance when you think of the manpower, trained technicians
22 and support facilities, the manufacturing -- it would be
23 an enormous program to this country to undertake, or even
24 for the industry to contemplate, but a 4- or 5,000 rig
25 count may be one of the things we're going to have to look

1 at. We cannot finance it today, we know that.

2 It is completely beyond the industry's financial
3 capabilities. It is not probably beyond the industry's
4 ability to mount, technically. In the past, when we've
5 been confronted by major problems, as in World War II,
6 we have a remarkable resiliency and ability to innovate
7 and get things done, but a 50 percent increase over 1956-
8 '57 levels shouldn't be an unthinkable level of activity
9 for this country, but it is an interesting number to
10 conjure with, particularly those who know what would be
11 required to meet it.

12 SECRETARY DUNCAN: I think that's a good comment.
13 There have been several people that have addressed the
14 number that I used, and I, too, would stipulate -- I wish
15 it was a lot more, but the 2800, however good it is, is
16 a lot better than it was. And it's a simple fact that
17 2800 is more in terms of numbers than has been the case
18 in 24 years. Now, if they have 3200 or 4,000, Mr.
19 Anderson, I think that's great.

20 It's my belief, and I don't know as much about
21 this as you do, but it is my belief that with the addi-
22 tional drilling activity and with the decontrol of prices
23 which will be complete in September, it's all going to be
24 done, that our expectation respecting adding to our re-
25 serves in this country has its limitations.

1 I've talked to many people in this room about
2 this issue, and there are some who have told me that there
3 is a great opportunity for substantial additions to our
4 reserves of oil and gas.

5 Now, on the oil side, there are those who have
6 the view that maybe we don't have a substantial potential
7 on oil, to add to our reserves, without much correlation
8 to the amount of drilling activity.

9 I've talked to people who have told me their
10 own corporate projections as to what U.S. oil production
11 might be over the next two decades, and what the reserves
12 might -- as to how those might develop over the next two
13 decades, and there is some variance, but there tends to be
14 a rather consistent view, with some exceptions, but a
15 rather consistent view that the expectation of substantial
16 -- and define "substantial" as 50 percent or 100 percent
17 increase in reserves, if you will, and we each have our
18 own definition of substantial -- but the probability of
19 that is not sufficiently high that you should predicate
20 an energy policy on that.

21 I think it is important that we do these other
22 things. I think it's important -- I'm not changing what
23 I just said to you, Mr. Anderson, but I think it's very
24 important. You know, 3800 would be a lot better than 2800,
25 I'm with you on that statement, but I just wonder what your

1 view is, or others' view might be, as to the expectation
2 of success, if it were 4,000, to make dramatic additions
3 to our reserves and our production potential.

4 MR. ANDERSON: I'm sure it will be a declining
5 success curve if undertaken long ago, but given the
6 realities of cost of energy and the drain on the dollar
7 as we ship money abroad, even a declining curve could be
8 a very attractive curve.

9 SECRETARY DUNCAN: I agree with that.

10 MR. ANDERSON: The other is deeper drilling is
11 considering more rig time, fewer wells completed per rig,
12 because we are drilling at much, much deeper depths in the
13 Darco Basin because in a year, year and a half, a wildcat's
14 life may change.

15 CHAIRMAN MURPHY: Next question?

16 MR. PITTS: Mr. Secretary, may I make one state-
17 ment? I'm Frank Pitts, from Dallas.

18 We actually have found production only on 2
19 percent of the potential in this country, on-shore and
20 off-shore, so we have 98 percent -- admitted, a lot of it
21 is deep and still to be tested. But what we need, at
22 least at present, it seems to me, is more wells. The
23 only way you can find oil and natural gas is to drill wells.

24 We have basin, after basin, after basin in this
25 country -- 15,000, 20,000, 25,000 untested. And last year,

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1 we only drilled 1.3 of the wells 15,000 feet or deeper.
2 We need to be drilling more wells and deeper wells, and
3 we will find, accidentally, a lot of oil, but we will find
4 an awful lot of natural gas, in my judgment.

5 SECRETARY DUNCAN: Well, I certainly hope you
6 are right.

7 MR. PITTS: I believe I'm right. I'm putting
8 my money where my mouth is.

9 SECRETARY DUNCAN: Don't let me leave this meeting
10 with people having the view that I would not like to see
11 more drilling activity because I very definitely would
12 like to see more drilling activity. I think enhanced oil
13 recovery, too, will add tremendously to enhance oil pro-
14 duction. I think we should do everything we can to en-
15 courage that, and all these other things, too.

16 Thank you very much.

17 (Applause.)

18 CHAIRMAN MURPHY: Well, I think we've all bene-
19 fitted from the Secretary's willingness to enter into a
20 free exchange here, and I daresay that he and his colleagues
21 in the Department feel it has been good for them.

22 Now, with all due respect to the dignity and
23 status of those of us remaining at the head table, since
24 the Secretary has been excused, I wonder if we could cut
25 down on the heat just a little.

1 We will turn now to the reports of the study
2 committees. You have heard from Mr. McAfee --

3 MR. MC AFEE: Not yet, you haven't.

4 CHAIRMAN MURPHY: We have heard from you several
5 times -- (laughter) -- and I heard Jerry say just this
6 morning, in connection with refineries, if you don't under-
7 stand refineries, he can make this his lifetime work.

8 I think he can get it done a little sooner than
9 that and, Mr. McAfee, if you would kindly step up.

10 MR. MC AFEE: Mr. Chairman, ladies and gentlemen,
11 as the Chairman intimated, I had somewhat mixed feelings
12 in appearing today and with yet another progress report
13 with the Committee on Refinery Flexibilities.

14 As some of you may remember, at our last meeting,
15 I expressed the hope that at this meeting we might be able
16 and would hope to be able to give our final report. Un-
17 fortunately, that is not to be possible but, on the other
18 hand, I am pleased to be able to report some significant
19 progress in further pursuing this very difficult and complex
20 study.

21 I sincerely believe it is going to continue to
22 be useful to both industry and government. You will recall
23 that our basic assignment covers three major areas. The
24 first is to analyze past and future trends in crude oil
25 availability and refining capability.

1 The second area concerns the relative competitive
2 economics of different sizes and types of refineries in the
3 United States and of U.S. refineries versus foreign export
4 refineries.

5 Finally, the Committee was requested to examine
6 the refining industry's flexibility to meet dislocation of
7 supply.

8 In conducting this study, the Committee is
9 assisted by a Coordinating Subcommittee and two task
10 groups. Warren B. Davis, Chief Economist of Gulf Oil
11 Corporation, serves as Chairman of the Coordinating Sub-
12 committee; John R. Hall, Vice Chairman and Chief Operating
13 Officer of Ashland Oil serves as Chairman of the Refinery
14 Capability Task Group; and S. E. Watterson, Jr., Corporation
15 Manager, Tanker and Distribution Planning Staff, Standard
16 Oil Company of California, serves as Chairman of the Oil
17 Supply, Demand and Logistics Task Group. R. Dobie
18 Langenkamp, Deputy Assistant Secretary of Energy, serves
19 as Government Co-Chairman of the Committee.

20 Prior to beginning the analysis requested by the
21 Secretary, the Committee decided that an extensive data
22 base on U.S. refineries would have to be developed. The
23 study's Interim Report, which you transmitted to the Secre-
24 tary, contained the results of that data collection effort.

25 The Interim Report also contained the results

1 of a survey of numerous supply-demand forecasts. As noted
2 at that time, however, the majority of the forecasts re-
3 ceived were prepared in late 1978 and early 1979 and, thus,
4 did not take into account the political and economic events
5 which occurred in 1979.

6 The forecasters were resurveyed early this year
7 and provided more current data to add to the analyses of
8 future refining requirements. The group of organizations
9 surveyed now believes, on average, that total U.S. oil
10 demand will be essentially unchanged throughout the 1980s.

11 This represents a reduction of 2.3 million
12 barrels per day in 1990 from the first survey results, down
13 from 21.2 to 18.9 million barrels per day. Sharp reduc-
14 tions in the demand for residual fuel oil and motor gasoline
15 account for a large portion of this overall decline.

16 It is important to note at this point that the
17 Committee will not be attempting to forecast future crude
18 supply, refined product demand, or refinery configuration.
19 The forecasts of numerous organizations have been aggre-
20 gated solely to provide a framework within which to analyze
21 future refining hardware requirements.

22 In all, three product demand cases and two crude
23 quality cases will be examined. The resultant six combina-
24 tions of crude quality and product demand are believed to
25 bracket the refining requirements between now and 1990.

1 Additional cases will be run to test the sensi-
2 tivity of facility requirements to various product quality
3 standards such as octane number and sulfur content. Finally,
4 the refining system will be tested under several crude
5 supply disruption scenarios.

6 This portion of the study is very comprehensive
7 and detailed. It is anticipated that these analyses will
8 be completed in about 60 days.

9 The work on the two competitiveness issues is
10 further along and draft reports are now being considered
11 by the working groups.

12 In any analysis of the competitive positions of
13 domestic refineries and of U.S. refineries vis-a-vis
14 foreign refineries, it is important to consider that the
15 competitive position of any refiner or segment of the
16 refining industry is largely determined by the total cost
17 of producing similar petroleum products relative to its
18 competitors.

19 All other factors being the same, the lower this
20 cost of production, the better the competitive position.
21 The analysis being developed for this study is based upon
22 this concept of competitiveness.

23 The domestic competitive analysis will consider
24 the crude oil entitlements program and small refiner bias
25 regulation as administered in 1978 and as modified

1 effective July 1, 1979. Additionally, the first quarter
2 1980 relative market values for gasoline, middle distil-
3 lates and heavy petroleum products will be considered.

4 The second area of competitiveness study is a
5 comparison of the incremental profitability of offshore
6 refineries located in eastern Canada, the Caribbean, the
7 Netherlands, and Italy with hypothetical refineries located
8 on the U.S. east and Gulf coasts.

9 The analysis considers a refinery typical in size
10 and complexity in each area under study and also includes
11 an analysis of eastern Canada and Caribbean refineries
12 retrofitted to yield a product mix comparable to that of
13 the U.S. East Coast.

14 The relative incremental profitability of U.S.
15 versus foreign refineries is being analyzed by comparing
16 the profitability of processing incremental crude oils
17 and delivering products to the U.S. East Coast market.

18 In summary, the work in all areas is progressing
19 well and the Committee hopes, Mr. Chairman, to be able to
20 submit a draft report to the Council for its consideration
21 this fall.

22 I cannot stress strongly enough my belief that
23 the great amount of time and expertise which has been
24 volunteered to this effort, largely by the NPC members
25 represented in the room today, has contributed to a

1 substantial document, not just in size but in substance,
2 which can be of great use to the Federal government and
3 to the industry.

4 I, personally, appreciate very much, indeed,
5 the support that you are giving this effort, and I know
6 that I speak for all the other members of our Committee,
7 as well. Thank you very much, Mr. Chairman.

8 CHAIRMAN MURPHY: I wish to thank you for what
9 you have done so far, and I think the Council and the
10 Department are very sympathetic with the sweeping changes
11 that have occurred while your work has been in progress.

12 The importance of this is underscored by the
13 fact -- and the Secretary was reminding us in his office
14 this morning, as he was being briefed in his own quarters
15 concerning the status of this, and they are using this as
16 a working paper even now.

17 Mr. McAfee, I'm sure, will be glad to answer
18 questions if anyone has them, relative to the report or
19 its substance.

20 (No response.)

21 If none, thank you very much.

22 (Applause.)

23 Now, the fourth study I've heard that is still
24 current is that of the Committee on Unconventional Gas
25 Resources. You have heard reports in the past from John

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1 Bookout, and we will now hear from him again.

2 MR. BOOKOUT: Thank you, Mr. Chairman. Good
3 morning, ladies and gentlemen.

4 Just to remind you, we were requested by the
5 Secretary of the Department of Energy to assess the nation's
6 unconventional gas sources -- that is, to estimate the
7 size of the U.S. gas resource beds containing tight gas
8 reservoirs, devonian shale, coal seams and geopressured
9 brine, and determine how much of this gas could be pro-
10 duced each year, supplying different price levels received
11 for the gas and using exploration and recovery technologies
12 available now and in the future.

13 The Committee on Unconventional Gas Sources
14 organized itself into four task groups, one for each of
15 the sources, and took on separate studies using common
16 economic parameters and reporting formats.

17 Three of the task groups -- Devonian Shale, Coal
18 Seams and Geopressured Brines -- have completed their
19 studies. Our full committee has reviewed these reports.
20 Today, we wish to report to you on the three completed
21 reports and on the status of the largest and most exten-
22 sive study, the tight gas reservoirs. The Tight Gas Study
23 report will be completed later this year.

24 Today, we will recommend to the Council that the
25 completed reports be issued now. Much of the data and

1 results have been given to the Department of Energy and
2 others, and certain policy changes to exploit the potential
3 indicated, are already being implemented.

4 We have prepared a brief interim summary, and
5 it is our recommendation that it, too, be issued with the
6 report being considered today.

7 I will make a few summary remarks and comments
8 about the study, and then ask that the Chairman permit
9 the assistance of Dr. Charles Matthews, who has been
10 Assistant to the Chairman, present some of the results
11 to you.

12 The largest and most important source of uncon-
13 ventional gas will be the tight gas reservoirs, perhaps
14 200 to 500 trillion cubic feet of gas. In that state,
15 we are looking at 12 basins, and 80 sub-basins, and a
16 great number of varieties in each of these basins.

17 Each variety has different properties and
18 problems and costs, which you can appreciate. The tight
19 gas study will be comprehensive, and I want to note here
20 that the tight reservoir gas will be the largest and the
21 most available of the unconventional resources.

22 Devonian shale gas and coal seam gas could
23 potentially add 20 to 25 trillion cubic feet of gas each
24 to the national reserve basin, by the year 2000, at a
25 price of \$5 per 1,000 in 1979\$. Let me emphasize, this is

1 not a forecast, it is an estimate of what could happen
2 if this price were received and if a very large effort
3 were undertaken.

4 To illustrate using the \$5 per 1,000 price
5 natural gas production from devonian shale and coal seam
6 combined, could reach 3 trillion cubic feet per year,
7 perhaps by 1995. This would require drilling 170,000
8 new wells. This is a very major effort, but it is also
9 a feasible effort.

10 The rigs and manpower could be had, however, if
11 the effort worthy to be mounted.

12 The potential crude reserve developed from the
13 geopressured brine, even at \$9 per 1,000, would be very
14 small, estimated to be no more than a trillion cubic
15 feet of gas.

16 The data base for this conclusion to be more
17 than adequate. Although geopressured brine is extensive,
18 individual reservoirs are usually in highly faulted areas,
19 therefore, of small size.

20 In summary, we estimate gas reserves from these
21 unconventional sources to be 40 to 50 trillion cubic feet
22 of gas. This is not unimportant, but it is small when
23 compared to the present crude reserves of natural gas in
24 the United States, some 195 trillion cubic feet at present,
25 mostly all from conventional sources.

1 Likewise, the 3 trillion cubic feet per year
2 which these sources could add to production, while not
3 large, compared to the daily production rate of about 23
4 cubic, it would play an important role in offsetting
5 decline.

6 Now, I would like to ask Dr. Matthews to give
7 us some of the details on the results of the task group.

8 MR. MATTHEWS: Thank you very much, John. This
9 is going to be a slide presentation, and I'm not sure
10 whether you gentlemen can see it.

11 This shows the request letter we received from
12 the Secretary of Energy. He asked that we make an analysis
13 of the potential natural gas recovery from devonian shale,
14 coal seams, geopressured brines and tight gas reservoirs.
15 This was to cover the resource base and the state of the
16 art recovery technology, outlook for cost of recovery, and
17 how government policy could improve the outlook.

18 The National Petroleum Council organized a Com-
19 mittee on Unconventional Gas Resources headed, as you
20 know, by Mr. Bookout, with Dobie Langenkamp of the Depart-
21 ment of Energy, as Co-Chairman.

22 They set up a four-man subcommittee, with Dick
23 Nelson of Shell as Chairman, and Lou Van Draya of the
24 Department of Energy, as Co-Chairman, who turned this into
25 four task groups, one for each of the sources -- Geopressured

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1 Brines headed by Tom Stone of the Union, and Don Ward as
2 the government Co-Chairman; Tight Gas Reservoirs headed
3 by Allen Baker, with Lou Dandrea as government Co-Chairman;
4 Devonian Shale headed by John Moore of Consolidated
5 Natural Gas as Chairman, and Jeff Smith as Co-Chairman;
6 Coal Seams headed by Bill Thompson of Consolidated Coal,
7 with Troy Yar as the Co-Chairman.

8 The Coordinating Subcommittee said this is the
9 way we would like to get the results from each of the
10 task groups, give us the reserve additions and producing
11 rates to the year 2000, five gas prices, 1979\$. All results
12 were in constant 1979\$ -- \$2.50, \$3.50, \$5.00, \$7.00 and
13 \$9.00.

14 I remember at the time we started this study,
15 I wanted to go up to \$12, but a number of people said it
16 was unreasonable, two years ago, and, now, the \$9 looks
17 none too high. This is to be done at three rates of
18 return -- 10, 15 and 20 percent. These are real rates of
19 return, after tax, taking into account risk, two levels
20 of technology, conventional and what we might achieve by
21 concerted industry and government probing of the service
22 to reach the advanced level of technology.

23 Some of the economic guidelines -- and I won't
24 go into this in detail -- again, in 1979\$, current tax
25 rate, overhead, some 10 percent of capital and 20 percent

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1 of direct operating cost, with expensive intangibles as
2 common today, and write-off tangibles, by most favorable
3 treatment for risk and dry holes, and we make an estimate
4 of the dry hole risk, and the burden of successful wells
5 with their share of dry hole costs and other unsuccessful
6 leasehold and other non-recoverable costs, and the price
7 we use is at point of sale.

8 These are the results the task group obtained,
9 and these are potential reserve additions to the year
10 2000, that's 7 cubic feet at the current real rate of
11 return using a 10 percent rate of return.

12 For devonian shale, they range from a low of
13 7 trillion cubic feet which could be added to reserves at
14 \$2.50, up to 27 trillion cubic feet at \$9. Coal seams
15 is very similar. \$2.50 per MCF, you might add 5 perhaps
16 by the year 2000, and up to 45 trillion cubic feet at \$9.

17 Geopressured brines was a disappointment. We
18 feel there is very little potential there. Tight gas
19 reservoirs -- and we gave a progress report today, so it
20 will give you some idea of how that stands -- it is going
21 to be, by far, the largest.

22 At \$2.50 per MCF, it looks as if the potential
23 reserves are at least 100 trillion, perhaps 200, at \$9 of
24 probably anywhere from 200 trillion up to 500. To put
25 that in perspective, you note that the current U.S. gas

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1 reserves are about 195 trillion cubic feet, so the uncon-
2 ventional gas has, taken as a whole, including tight
3 reservoirs, has a very significant potential to add at
4 least the equivalent of the current U.S. reserves, and
5 perhaps double that.

6 What rate could we achieve -- and I do not have
7 an estimate of the rate for tight gas reservoirs at this
8 time. This is the potential production rate in trillion
9 cubic feet per year. Again, the 10 percent real rate of
10 return at current technology, and it prices up to \$9 per
11 thousand cubic feet in 1979\$.

12 Again, to put this into perspective, note that
13 the current U.S. gas production rates is about 20 cubic
14 feet per year, and you will see that the rates achievable
15 for devonian shale and coal seams are not large compared
16 with that rate.

17 The devonian, we have looked at production rates
18 in two times -- 1990 and 2000 -- two different growth
19 rates. A moderate rate of drilling and what we might
20 call accelerated or all-out rate. Devonian shale, even
21 an accelerated rate would be only about .6 of a trillion
22 in 1990 and up to 1 trillion in 2000. That is only some
23 5 percent of the current gas production rate.

24 Coal seams under accelerated rate might reach
25 2 trillion or 2½ trillion. Again, it is about 10 percent

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1 and, again, we expect the rate from geopressured brines
2 to be less. I do not have a good forecast for the tight
3 gas reservoirs. That is going to be very capital inten-
4 sive. Even the rate of buildup will depend very strongly
5 on what kind of capital can be thrown into that effort.

6 Now, what were some of the problems with these
7 sources? Currently, devonian shale and coal seams and
8 geopressured brines, in all these sources, prices are
9 decontrolled. Devonian shale, one of the current problems
10 is there is no available pipeline in certain areas.
11 Further, there is current competition with the conventional
12 sources producible at a lower control price.

13 There was considerable drilling at the time
14 intrastate gas was not under control, and there is current
15 acceptance in some areas of that. And the same with the
16 price of devonian shale gas. Further, much of the area
17 where it was thought to be productive with devonian shale
18 has not yet been drilled, so we are extrapolating. We
19 assume that much of that area will be productive.

20 Coal seams and legal ownership of the gas is not
21 known at this time. Does it belong to the owner of the
22 coal minerals, or to the owner of the oil and gas minerals,
23 or to neither. This will probably be settled in court,
24 and it will probably be a number of years before that is
25 settled.

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1 There is very uncertain gas well productivity.
2 We only have data on a relatively few wells, and we do not
3 have more than a few years, so extrapolation into the
4 future for different types of coal is very uncertain.

5 Finally, there is the low value of the coal
6 seams gas relative to coal value -- only about 2 percent
7 value, BTU value, is in the gas, so one has to be very
8 careful in drilling wells, or doing anything in an attempt
9 to produce gas, because you may do damage to 98 percent
10 of the minerals in an attempt to recover 2 percent.

11 Finally, geopressured brines, the basic problem
12 there, although it varies, there is a normal resource in
13 play. The basic problem is it's a very new form of
14 energy. From the brines we have seen thus far in the
15 geopressure program, each barrel of water will only
16 dissolve about 20 cubic feet of gas, so that at \$5 per
17 thousand cubic feet, each barrel of water is only worth
18 10 cents.

19 To pay back the cost of a \$5 or \$6 million well
20 plus the disposal, you can see that you have to produce
21 a veritable supermarket of water. The well has to produce
22 on the order of 30- to 50,000 barrels per day, for up to
23 ten years, in order to get any kind of decent economics.

24 Further, the geopressured brines is produced by
25 liquid expansion, so the recovery is small, on the order

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1 of 3 percent, so when you take all those factors into
2 account, you find that each well must drain an area of
3 anywhere from 10 to 30 square miles. So, instead of
4 drilling on 40 acres basis, you're drilling on a miles
5 basis.

6 So, this brings us to the first problem and that
7 is that there are not very many large permeable prospects.
8 The geopressured zone is geopressured because it is faulted,
9 or rather it is very highly faulted so that these individual
10 reservoirs tend to be quite small.

11 There will probably be some prosepcts, and some
12 of them have been found, but we think not very many. Even
13 if you found the prospect, most of them will only support
14 one or two wells. It's not like finding an oil field
15 where you have the discovery and then the development
16 drilling phase. Most prospects will support only one or
17 two wells.

18 So, in summary, this is the plan, to issue this
19 report to the National Petroleum Council in five volumes.--
20 Volume I, the Executive Summary; Volume II, Coal Seams;
21 Volume III, Devonian Shale; Volume IV, Geopressured Brines;
22 and Volume V, Tight Gas Reservoirs. The plan is to issue
23 Volumes II, III and IV in June of this year, and Volumes
24 I and V later in 1980. That's all I have.

25 MR. BOOKOUT: Thank you, Jerry. As he pointed

1 out, our task won't be completed until later in the year
2 when we have the compliance of the Executive Summary and
3 the completed issue of documentation on the tight gas
4 report.

5 In the meantime, Mr. Chairman, the Committee met
6 yesterday and recommended we issue at least three volumes
7 -- Coal Seams, Devonian Shale and Geopressured Brines --
8 along with a brief summary as an interim report to the
9 National Petroleum Council.

10 All of you will receive copies of these volumes
11 and the summary. Now, we've added to the summary that you
12 presently have, a further summarization of the coal seams,
13 devonian shale and geopressured brines, and also a status
14 report for tight gas reservoirs.

15 These additions are shown in the recent issues
16 2-A through 2-E and pages 20 through 22. The principal
17 conclusion in brief are, natural gas, coal seams and
18 devonian shale could make a significant contribution to
19 the future of U.S. gas supply.

20 There is considerable uncertainty in the esti-
21 mates of reserve and producing rates, and the rate of
22 development will be highly dependent upon the economic
23 conditions, which is certainly no surprise to anyone in
24 this group.

25 Mr. Chairman, I move that the three volumes and

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1 the summary be approved by the National Petroleum Council,
2 subject to finalization, as the response to the request
3 made by the Secretary of Energy.

4 CHAIRMAN MURPHY: Do I hear a second?

5 VOICE: Second.

6 CHAIRMAN MURPHY: The matter is open to discus-
7 sion. Do you wish to discuss this with Mr. Bookout, or
8 are you prepared to act on the motion?

9 (No response.)

10 There being no questions, those who favor the
11 Bookout resolution which calls for the adoption of these
12 reports with the last phase coming later, will let it be
13 known be saying "aye".

14 (Whereupon, there was a chorus of "ayes".)

15 CHAIRMAN MURPHY: The motion is carried.

16 We are now going to turn to the reports of the
17 administrative committees; none of those are unimportant,
18 but the work of the Agenda Committee, in particular,
19 requires our attention this morning. I'm going to declare
20 a five-minute break to stretch -- and, Wiley, you're the
21 Sergeant-at-Arms, so don't let them go far.

22 (Whereupon, a short recess was taken.)

23 CHAIRMAN MURPHY: Ladies and gentlemen, if you
24 would resume your seats.

25 Ladies and gentlemen, you will remember that

1 before the last meeting, the Secretary had placed before
2 us a request for three far-reaching studies. These were
3 the burden of the capacity of the membership.

4 The Agenda Committee has met to consider these
5 requests. Bill Martin, Chairman of Phillips and Chairman
6 of that Committee conducted the meeting. He had informed
7 us beforehand that his Board, though, is meeting abroad
8 this week, and Bob Sellers, a member of his Committee, will
9 render the report of the Agenda Committee.

10 MR. SELLERS: Thank you, Mr. Chairman.

11 On May 23, 1980, the Agenda Committee met to
12 consider three study requests from the Secretary of Energy.
13 Copies of the request letter was mailed to you on June 5
14 and they are also in the handout this morning.

15 The first letter dated April 9, 1980, requests
16 the Council to undertake the comprehensive study of Arctic
17 area oil and gas development. Specifically, the Secretary
18 requests resource base information, economic and techno-
19 logical analyses and the Council's consideration of other
20 matters, such as the enviromental impacts, transportation
21 requirements and international jurisdictional questions.

22 The Agenda Committee feels that this will be a
23 difficult study because of the limited amount of available
24 data but, nonetheless, is a proper request for the Secre-
25 tary to make and for the Council to accept.

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1 The second request letter reviewed by the Agenda
2 Committee also dated April 9, 1980, requests the Council
3 to prepare a new study of environmental conservation issues
4 related to the petroleum industry.

5 In the letter, the Secretary notes the Council
6 1971 report on this subject, as well as the extensive and
7 regulatory and technological changes which have occurred
8 in the last decade.

9 In requesting this study, the Secretary asks
10 the Council to place special emphasis on determining the
11 environmental problems that are most serious, and the
12 impact of current environmental control regulations on
13 availability and cost of petroleum products and natural
14 gas.

15 The Agenda Committee feels that an analysis of
16 the proper balance between environmental costs and energy
17 costs is both important and needed. The Agenda Committee
18 thinks that it is highly appropriate for the Council to
19 undertake this study, but recognizes that if the Council
20 accepts this and the Arctic request, the two Committess
21 will meet to coordinate their activities, to avoid duplica-
22 tion.

23 As you will note, Deputy Assistant Secretary R.
24 Dobie Langenkamp has been designated by the Secretary to
25 work with us on both of these things.

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1 Finally, the Agenda Committee discussed a re-
2 quest for a new study on emergency preparedness planning.
3 The Secretary of Energy has recently combined the Depart-
4 ment's internal functions for energy emergency planning,
5 and asked Deputy Secretary John C. Sawhill to be responsi-
6 ble for the reappraisal of the Department's emergency
7 planning apparatus.

8 The reappraisal will be conducted by the newly
9 created Office of Contingency Planning, under the director-
10 ship of Barton R. House, Deputy Administrator, Economic
11 Regulatory Administration.

12 Mr. House attended the Agenda Committee meeting
13 to inform the members of these actions and to express Dr.
14 Sawhill's interest in the Council's assistance with their
15 coordinating planning effort.

16 The Agenda Committee was also informed of the
17 Secretary's intent to request a Council study on the action
18 required of industry and government during an energy
19 emergency.

20 The Agenda Committee considers this to be a topic
21 of great national importance, and approves, in principle,
22 this request.

23 By verbal communication on June 3 between the
24 members and the Chairman, the Agenda Committee unanimously
25 approved the text of this request as provided in Dr. Sawhill's

1 letter of June 3.

2 The Agenda Committee finds that each of these
3 three requests is proper and advisable for Council con-
4 sideration, and unanimously recommends that the Council
5 agree to undertake them as matters of importance and
6 urgency.

7 In making this recommendation, the Agenda Com-
8 mittee recognizes that detailed questions will arise on
9 the exact bounds of these studies; however, the Committee
10 feels that the resolution of these questions should be
11 left to the study committee working with representatives
12 of the Department of Energy.

13 Mr. Chairman, this completes the report of the
14 Agenda Committee, and I move that it be adopted by the
15 membership of the National Petroleum Council.

16 CHAIRMAN MURPHY: Do I hear a second?

17 VOICE: Second.

18 CHAIRMAN MURPHY: Discussion?

19 MR. MASSELLI: Mr. Chairman, I'm David Masselli
20 of Friends of the Earth. I would like to amend the motion
21 and move that the Committee defer action on the Arctic
22 study until its next meeting.

23 The reason I do this is, I think, frankly, there
24 is very little that the Committee can do between now and
25 December or October because of the fact, which is known

1 to everyone here, that starting on July 21, the Alaska
2 Lands Bill will be up and, for the rest of the year, we
3 will see significant legislative and administrative activ-
4 ities on Alaska.

5 I don't think it serves the Council particularly
6 well -- and this is in light of the recent extremely good
7 studies its done -- to announce with some fanfare a month
8 before this rather controversial legislation, that they
9 are "making a major study" of Arctic resources.

10 I think it would be easier after these actions
11 have taken place, whatever they are, to figure out exactly
12 what the bounds of the study should be. And, frankly,
13 if we choose to go forward with this study now, I'm sure
14 that the Study Committee will simply sit on its hands for
15 three or four months and find out what happens.

16 So, I would recommend that this study, which
17 will undoubtedly be the most expensive study, which will
18 have us doing five studies at once -- this was an issue
19 which was discussed somewhat yesterday when the Finance
20 Committee met -- which will tax our membership, among
21 other things, that we just defer action on this until what
22 I think will be a much more appropriate time at the end
23 of the year.

24 And if at that time, it seems reasonable to go
25 forward -- and I think it will be reasonable to go forward

1 -- we can undertake the study with a much clearer idea of
2 what's being looked at than the current request, which is
3 I think, as Mr. Sellers said, very, very big.

4 So, I would move that we defer action on that
5 particular study and move forward as quickly as possible
6 on the other two, which I think are excellent studies and
7 should be undertaken as quickly as possible.

8 CHAIRMAN MURPHY: Mr. Masselli, the motion
9 before the house, which has been seconded, calls for
10 englobal action on the three requests. Now, when you
11 began your remarks, I thought you were saying that you
12 were moving an amendment to --

13 MR. MASSELLI: Yes.

14 CHAIRMAN MURPHY: All right. We have a motion
15 to amend the resolution before the house. It is wanting
16 a second at the moment. Does the Chair hear a second?

17 VOICE: Second.

18 CHAIRMAN MURPHY: You hear the motion to amend
19 which, as I understand it, is that the Arctic Resources
20 Study be deferred --

21 MR. MASSELLI: Until the next meeting of the
22 Council.

23 CHAIRMAN MURPHY: Is there discussion of the
24 amendment to the motion?

25 MR. ANDERSON: I would like to point out that

1 this is done in response to a request by the Secretary
2 of Energy, it is not a study initiated by the industry.
3 And there is no certainty that we will convene in the
4 fall, it is at the Secretary's pleasure. It could mean
5 a delay of close to a year, and seeing that it is the
6 Secretary's request and he feels it is timely, I think it
7 would be inappropriate for the Council not to accommodate
8 him in making a joint approval of this study.

9 CHAIRMAN MURPHY: Are there others who wish to
10 speak to the amendment?

11 Yes, sir?

12 MR. ROSAPEPE: Jim Rosapepe. I would just like
13 to ask you, Mr. Chairman, if you could direct to members
14 that are appropriate from the Department and from the
15 Council, someone who is familiar with the thinking behind
16 the study, to address the questions that Mr. Masselli
17 raised about the appropriateness and the timing and the
18 significance of putting it off six months or so.

19 ASSISTANT SECRETARY DAVIS: Let me make a few
20 comments on that. First of all, the Administration has
21 a position on the Arctic Lands Bill. The request for this
22 study does not in any way imply any variation or change
23 or implication that the study would make any change in the
24 Administration's position.

25 Secondly, it is based on the sincere belief that

1 the time is not only right, but we are essentially behind
2 time in attempting to get the kind of information that
3 come into this study relative to the Alaskan Lands area,
4 not just the Arctic oil interests in which the Administra-
5 tion has taken a very appropriate position in opening
6 up.

7 I do believe that we stand behind our belief
8 that the time is right in terms of looking at the energy
9 supply on-line. We recognize the activity that was men-
10 tioned by the individual making the motion, we would in
11 no way assume that what we are doing now would be anything
12 but constructive to the activities under discussion, not
13 only in the Administration but here.

14 CHAIRMAN MURPHY: Thank you, Secretary Davis.
15 I will supplement, if I may, in answer to Mr. Rosapepe,
16 as the Chairman here, along with my Co-Chairman Bill Haynes,
17 we do not view lightly the amount of work and time that is
18 required, and we have taken soundings in the Department,
19 from the Secretary on down pretty far, as to whether they
20 feel that they need this and need it urgently and need it
21 now, and the answer has been a resounding "yes".

22 You are voting on an amendment which will call
23 for deferral of one of the three requests, namely, Arctic
24 Resources. Those in favor of adopting the amendment raise
25 your right hand.

1 (Show of hands.)

2 CHAIRMAN MURPHY: One, two, three.

3 Those opposed to adoption of the amendment,
4 raise your right hand.

5 (Show of hands.)

6 CHAIRMAN MURPHY: The amendment fails by an
7 overwhelming majority. We will now revert to the motion
8 before the house which originates from the Agenda Committee
9 to undertake the three studies that have been laid on us
10 by the Secretary of Energy.

11 Those who favor adoption of the Committee
12 resolution, let it be known by saying "aye".

13 (Chorus of "ayes".)

14 CHAIRMAN MURPHY: Carried. Mr. Sellers, thank
15 you very much, and I remind you that your affirmative
16 vote is interpreted by Bill Haynes and me as a volunteering
17 on your part to get to work.

18 VOICE: Now you tell us.

19 CHAIRMAN MURPHY: We will now turn to the
20 Finance Committee and Mr. Dean McGee.

21 MR. MC GEE: Thank you, Mr. Chairman.

22 The Finance Committee met yesterday to review
23 the financial status of the Council, and I am pleased to
24 report that the financial condition of the Council is
25 excellent.

1 At the meeting yesterday, the Committee reviewed
2 the annual audit with representatives of Arthur Young and
3 Company, and they gave us a clean bill of health.

4 We also reviewed a proposed revised budget. As
5 you may recall, at our last meeting, we approved a budget
6 of \$1,650,00, which was considered necessary to complete
7 the two on-going studies and to undertake two new studies.

8 As you have heard in the Agenda Committee report
9 just now, we have been asked to do three new studies.
10 Based on this and a review of the first five months, the
11 Committee recommends that we increase the calendar year
12 1980 budget by \$100,000, to \$1,750,000.

13 The revised calendar year 1980 budget is still
14 \$200,000 less than the calendar year 1979 budget. Because
15 of the higher than expected publication sales and interest
16 rates on investments and because of the uncertainty of
17 the scope of the three new studies, the Committee recom-
18 mends, Mr. Chairman, that the member contribution be held
19 to \$1,650,000, and that you reauthorize to make such addi-
20 tional expenditures from the Contingency Fund if this
21 becomes necessary to the operation of the Council.

22 Finally, the Finance Committee recommends the
23 selection of Arthur Young and Company to continue as the
24 Council's outside auditor.

25 Thank you, Mr. Chairman, and I move that the

1 report of the Finance Committee be adopted by the Council.

2 CHAIRMAN MURPHY: Thank you, Mr. McGee. Is
3 there a second?

4 VOICE: Second.

5 CHAIRMAN MURPHY: I would say, Mr. Chairman,
6 that I consider that your resolution implies that the
7 Chairman of the Council is directed to solicit the member-
8 ship to subscribe to the budget that you have recommended.

9 Those who favor the budget just laid before you,
10 let it be known by saying "aye".

11 (Chorus of "ayes".)

12 CHAIRMAN MURPHY: So done. Thank you very much,
13 Mr. McGee.

14 Ladies and gentlemen, shortly after the war,
15 the then President Harry Truman honored us with a visit
16 to Arkansas and, in that happier and simpler day, why,
17 there were two Secret Service men, not a great squad of
18 them, and there was just a dozen or so people standing
19 around with drinks in their hands, before sitting down to
20 dinner.

21 And there was a man by the name of Grady Wooley,
22 who was to become very wealthy in the insurance business,
23 after leaving office, not in it, I hasten to say, and who
24 had served as sheriff of my county.

25 And he was presented to the President as Grady

1 Wooley, ex-sheriff of Union County, Arkansas. Whereupon,
2 he drew himself up in righteous indignation and said, "Mr.
3 President, I am not an ex-sheriff. An ex-sheriff is some-
4 one who has been voted out of office. A former sheriff
5 is one who has retired honorably."

6 (Laughter.)

7 Now, we've had some amendments and adjustments
8 to make in the Council's government. Bill Haynes and I
9 determined the best way to deal with that was to appoint
10 a committee consisting of the living, former Chairman of
11 the Council, and Mr. Collis Chandler, my immediate predeces-
12 sor, will present this committee's report. Collis?

13 MR. CHANDLER: Thank you, Mr. Chairman.

14 As the Chairman indicated, the Special Committee
15 had two primary objectives. The first was to make neces-
16 sary changes in the wording of the articles to reflect the
17 transfer of the National Petroleum Council from the Depart-
18 ment of Interior to the Department of Energy.

19 Secondly, the Chairman requested the Committee
20 to propose any other amendments that would improve the
21 operation of the Council. The amendments proposed by the
22 Committee were provided each member of the Council on
23 May 9 of this year, and a copy of the amendments are also
24 in the handout provided to you this morning.

25 The amendments to reflect the transfer to the

1 Department of Energy are numerous but, since they repre-
2 sent technical implementation of May 25, 1978 resolution,
3 we do not consider it necessary to review them individually.

4 In addition to the technical amendments, the
5 Committee proposes five amendments. The first is to delete
6 in its entirety, the second sentence of Section 2.2. This
7 sentence was added to the articles by amendment at the
8 March 22, 1963 meeting of the Council, and specifically
9 reflected the provisions contained in the then newly
10 issued Executive Order 11007.

11 In 1973, the Federal Advisory Committee Act
12 replaced Executive Order 11007, and neither the Federal
13 Advisory Committee Act or its implementing regulations
14 retain this specific provision, and the Committee concluded
15 it is no longer necessary to embody it in the Council's
16 Articles of Organization.

17 Secondly, in Section 4.1, the first meeting after
18 the appointment of the membership is designated as the
19 organizational meeting of the Council. There are several
20 other sections which specify the election of officers,
21 Agenda and Finance Committee members and approval of the
22 annual budget which will occur at the organizational
23 meeting.

24 Because the membership may be appointed for terms
25 of more than one year, the Committee recommends that the

1 organizational meeting be redefined as the first meeting
2 in each calendar year. This redefinition is contained
3 in Section 4.1 and requires additional technical amend-
4 ments to Sections 5.4 and 8.1.

5 The Committee's third recommendation is that
6 Section 5-2 and 5-3 be amended to provide the Council
7 Chairman the authority to make interim appointments to
8 vacancies on the Agenda and Finance Committees.

9 Next, the Committee recommends that Section 6-4
10 be amended to provide that members of study committees
11 shall be selected from Council members. The Special
12 Committee concludes that this amendment is appropriate
13 because of the important role of the study committees.

14 Membership on study subcommittees and the task
15 groups is not limited to Council members, by this amend-
16 ment.

17 Finally, the Committee recommends the addition
18 of a new article to provide the mechanism whereby the
19 Council may determine in the future, disposition of its
20 records and assets if, at anytime in the future, the
21 Secretary of Energy should determine that he does not wish
22 to continue to utilize the Council.

23 The Committee feels that such a determination
24 is highly unlikely, particularly in light of the Council's
25 long history of valuable service and current high level of

1 activity. However, the Committee recognizes the appro-
2 priateness of such a provision in the Articles of Organiza-
3 tion of any group such as the Council.

4 Mr. Chairman, the Special Committee concludes
5 that these are proper and desirable amendments, and move
6 that they be adopted by the Council.

7 CHAIRMAN MURPHY: Is there a second?

8 VOICE: Second.

9 CHAIRMAN MURPHY: Questions or discussion. Yes,
10 sir?

11 MR. NORDLICHT: My name is Ira Nordlicht, and
12 I'm a member just of a couple of days, so I hope you will
13 grant me dispensation in case I stumble over any procedure.

14 When I read over the material that was very
15 kindly provided, when I came to this provision which said
16 to delete "Neither the Council nor any of its committees
17 shall receive, compile or discuss data or reports showing
18 the current or projected commercial operations of identi-
19 fied enterprises", and I read the explanation about whether
20 it would be required anymore.

21 And yesterday evening at the reception, I asked
22 a few people why it was being deleted, and they mentioned
23 that it prohibited the legal exchange of information. So,
24 I went back where I was staying last night and read it
25 again, and decided, in fact, it does prohibit the legal

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1 exchange of information, but it also prohibits illegal
2 exchange of information.

3 And so, I started thinking some more about it,
4 and it struck me that any organization that was composed
5 of competitors might want to have some sort of policy, or
6 some language that prohibits the legal exchange of informa-
7 tion.

8 And also, it dawned on me that at some later
9 date, somebody might look at this and say, "Gee, you
10 people deleted this", and I wonder why.

11 So, I think I would sort of suggest that maybe
12 some revision to this language be made, or some substitute
13 language be provided, but that just this language being
14 deleted might not be advisable.

15 CHAIRMAN MURPHY: Do you wish to respond, Mr.
16 Chandler?

17 MR. CHANDLER: Yes. I guess I would have three
18 points. One is, the language is obsolete in terms of
19 required language. Number two, a strict interpretation
20 of those words -- and I admit, I think the Committee is
21 somewhat at a loss to understand those words -- but a
22 strict interpretation of those words would preclude the
23 collection of even publicly, such things as the number of
24 drilling rigs operating, wells drilled, production volume,
25 and so forth.

1 A third point is -- and, in fact, the DOE does
2 request that the Council assemble data relative to the
3 different studies. And I guess a fourth point is that
4 whether or not the words are included in the articles or
5 not included does not bear on the question of the illegality
6 of the actions of the members of this Council.

7 MR. NORDLICHT: May I comment?

8 CHAIRMAN MURPHY: Indeed, so.

9 MR. NORDLICHT: I realize that it is not re-
10 quired, I guess I just think it is a matter of good
11 policy when you have competitors in an organization.

12 Second, I think that we both agree that the
13 language prohibits perfectly proper exchange. And my only
14 concern is that there be some sort of statement of policy,
15 in one form or another, that puts this organization on
16 the record that it is not in favor of any illegal exchange
17 of information, which the language also describes. And
18 in terms of the data -- please correct me if I'm wrong --
19 but I understand that data collected for studies usually
20 is aggregated so there wouldn't be any competitor diffi-
21 culties.

22 CHAIRMAN MURPHY: Are there other comments?

23 MR. ANDERSON: It's a point well taken. We
24 certainly don't want to be ambiguous about it. The
25 Council has scrupulously tried for years to observe both

1 the spirit and the intent of the articles.

2 CHAIRMAN MURPHY: In my experience, it's abso-
3 lutely ridiculous, collectively and as far as individual
4 members are concerned.

5 MR. NORDLICHT: Is there anybody here from the
6 Justice Department today?

7 CHAIRMAN MURPHY: No, but our own counsel is
8 here. Is Mr. Webster here?

9 MR. WEBSTER: I'm here.

10 CHAIRMAN MURPHY: Would you like to address a
11 question to our own counsel? He has given this his best
12 effort.

13 MR. ANDERSON: I'm just concerned that if omit-
14 ting it, it certainly is our intent, whether we should
15 address this question. I think we can go ahead and address
16 it. I think we could provisionally prove it, but maybe
17 we ought to take a look at it.

18 CHAIRMAN MURPHY: Would you comment, Mr. Webster?

19 MR. WEBSTER: Perhaps I could make one additional
20 point, Mr. Chairman. First, of course, this does not
21 signal a change in policy. The intention of the Council
22 always has been, as Chairman Murphy said, its accumulation
23 of data. Mainly, the motivating force here was, particu-
24 larly in view of recent letters from the Department of
25 Energy, which has specifically required collection of data

1 in one study, and implicitly required the collection of
2 data in another study.

3 We felt this language was inappropriate to have
4 in the articles, and inefficient, but that does not mean
5 that there is a change in the policy of the Council with
6 respect to the collection of data. And to the extent that
7 data is collected from the public sources, of course, that
8 would be permitted.

9 And a number of us feel that it is unfortunate
10 that the language is as restrictive as it is from the
11 beginning, to the extent that data is collected from indi-
12 vidual members. I think, almost without exception, that
13 has been done and, to the extent to which there has been
14 a buffer protecting the dissemination of that data from
15 one member to another has been done in two ways -- it has
16 either been done by the staff so that the questionnaire
17 is received by the staff, and the staff assembles the
18 data and destroys the initial submission, or as done in
19 the current studies, in recent studies, it was done by an
20 independent organization -- in this case, two or three
21 accounting firms. Again, they are not to release the
22 individual responses to any member, and they aggregate
23 that according to predetermined instructions.

24 We felt that the additional flexibility, therefore,
25 was needed to have the Council even collect data from

1 other sources or from individual members, particularly
2 when it is specifically or implicitly requested to do so.

3 Again, this is not a signal of change in the
4 policy of the Council.

5 CHAIRMAN MURPHY: Let me recognize Mr. Rosapepe.

6 MR. ROSAPEPE: Thank you. I would like to add
7 the points, I guess, that I think Mr. Nordlicht and Mr.
8 Anderson are making in some indirect way.

9 This question may be more relevantly directed
10 to not its public relations counsel but to its legal
11 counsel. The fact of the matter is that in my brief ex-
12 posure with council over the last year, I have been very
13 impressed with the scrupulousness with which the members
14 of the Council and the staff of the Council to take
15 seriously the prohibition of avoiding specifically illegal
16 and generally active competitive behavior.

17 And taking this language out -- and I couldn't
18 agree more that it is a blunderbuss, too broad, not the
19 right language -- without putting anything back in to
20 state the policy of the Council, it looks real bad.

21 As you know, I probably spend more time with
22 those who are suspicious of the industry than perhaps
23 some of the rest of you do, and it just opens the Council
24 up to needless attack. And I don't think you have to
25 defend the current language to say there could be language

1 that could be developed that would state the policy of
2 the Council, which is the policy of the Council, and the
3 Council ought to get credit for it. I'm not sure if you
4 just take it out, that you're not opening yourself up to
5 criticism that we don't need.

6 CHAIRMAN MURPHY: Yes, Mr. Nordlicht?

7 MR. NORDLICHT: That's pretty much what I was
8 saying. From what I understand, even though my experience
9 is only two days and it's all hearsay, that the Council
10 has been very scrupulous, as Mr. Rosapepe describes, but
11 I mean this is really -- whether it's intended or not --
12 I mean, to have the deletion of a phrase which describes
13 -- I don't know the procedure, and I don't want to cut off
14 the debate either, but at some point I would like to make
15 a motion to have this language recommitted. So, whenever
16 you feel that is appropriate --

17 CHAIRMAN MURPHY: I will entertain such a motion
18 if you wish to offer it. And your motion now is to --
19 you would amend the Committee resolution which is before
20 the house, by requiring that the language referred to be
21 remanded to the Committee for further study.

22 MR. NORDLICHT: That's correct.

23 CHAIRMAN MURPHY: Is there a second to that
24 motion?

25 VOICE: Second.

1 CHAIRMAN MURPHY: The Chair hears a second.

2 What is before the house, ladies and gentlemen --

3 MR. CHANDLER: May I comment, Mr. Chairman?

4 CHAIRMAN MURPHY: Yes.

5 MR. CHANDLER: The Executive Director of the
6 Council, Marshall just pointed out to me that there are
7 two other provisions in the article that bear on this
8 question of propriety -- Section 1.2 -- and I will read
9 it again, "The Council in its organization and operation
10 shall be governed by all applicable statutes and regula-
11 tions".

12 The second section that bears on the question of
13 propriety is Section 4-3 which says, "No meeting of the
14 Council shall be held unless the Government Co-Chairman
15 approves the agenda thereof, approves the calling thereof,
16 and is present thereat. The Government Co-Chairman may
17 call any meeting of the Council to a close if he considers
18 such action to be in the public interest".

19 And I would just point out to you that there
20 are other words.

21 CHAIRMAN MURPHY: Does that relieve your appre-
22 hension any, sir?

23 MR. NORDLICHT: Actually, not at all. In the
24 first case, it is a general prescription and, of course,
25 when there is something very general, everybody always

1 looks to specific language that's more on point.

2 And the second item, it's nice to be able to
3 have that section in there, but what we're really talking
4 about is regarding some of the most sensitive concerns
5 and some of the most sensitive charges that have been
6 leveled against the industry -- and I suspect, at one time
7 or another, against the Council -- and, frankly, what this
8 says, if you take it out and somebody looks back and
9 says, "Well, what's the policy in these articles", and
10 they'll say, "At one point they said they couldn't exchange
11 information and then they decided to take it out". That's
12 where they are going to look. I don't want to be in that
13 sort of a situation.

14 CHAIRMAN MURPHY: Are there other comments on
15 the resolution to amend the motion?

16 MR. ANDERSON: Would it suffice to have the
17 Chair state that after discussion, if the Chair pointed out
18 that this in no way alters or changes any of the existing
19 ethical standards of high conduct of the Council?

20 CHAIRMAN MURPHY: Well, I could make that state-
21 ment with great emphasis --

22 MR. ANDERSON: Put it in the minutes, but --

23 CHAIRMAN MURPHY: I'll try to be conscientious
24 here in providing for orderly procedures and free discussion,
25 without trying to inflict my personal views on these

1 matters, but I have been a member of this Council for more
2 years than I'd like to remember, and I take the present
3 responsibility pretty seriously, and I think I can con-
4 scientiously say, both on experience and present responsi-
5 bility, that this Council, collectively and so far as
6 individual members are concerned, are as pure as the
7 driven snow.

8 Now, we're going to act on this amendment. Those
9 who --

10 MR. WEBSTER: May I make one other comment here?

11 CHAIRMAN MURPHY: Indeed so.

12 MR. WEBSTER: Just briefly, first of all, I've
13 never heard any such charges leveled at the Council, and
14 I have been with the Council for five or six years, and
15 historically have been briefed on the Council's activities
16 for a long time, and I would like to elaborate on one point.
17 The Chairman and I feel you have to grasp the full weight
18 of the cooperation the Council has with the U.S. govern-
19 ment, and that is the point I wish to make.

20 Of course, the membership is appointed by the
21 Federal government. The Federal government provides a
22 Co-Chairman to the Council and provides a Co-Chairman
23 to every committee, task group, task force, whatever level,
24 and approves the agenda of all the committees involved,
25 and it has a government co-chairman who could end any meeting

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1 which the Co-Chairman deems not in the public interest.
2 Beyond that, the Sunshine provision provides public notice
3 of the meetings and recordation of the meetings, and
4 transcripts of any and all minutes. Therefore, the balance
5 of the Sunshine provision and the cooperation of the
6 government also moot the occurrence of any improper
7 on the subtraction of this provision, if it was not
8 appropriate to put it in in the beginning. And that is
9 one more reason to suggest it would be appropriate to
10 remove it, as long as the requirement is no longer out-
11 standing that caused it to be embodied in the first place.
12 It was never in the Articles of Organization of the Council
13 from the time of the Council's inception until 11007 was
14 passed, and some of the reasons for it being left on,
15 11007 was applicable to other organizations, but not to
16 this one.

17 CHAIRMAN MURPHY: Further opinions or suggestions?

18 MR. O'SHICK: I don't have an opinion, but I
19 have a question. Will the effect of this motion be to
20 not change this Section 2.2, or would we later be voting
21 on the change to this?

22 CHAIRMAN MURPHY: Well, the amendment would
23 remand this particular section to the Special Committee,
24 and then we would, presumably at the next meeting, have
25 a recommendation from them either that they're standing by

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1 their guns that it's appropriate, or reflecting that they
2 have considered this, the arguments here and elsewhere --

3 MR. HEFNER: I have just one comment. It seems
4 to me that if the question of impropriety is raised in any
5 serious-minded person by the removal of that language,
6 that it is worth sending back to the Committee to relieve
7 us of that question.

8 CHAIRMAN MURPHY: Mr. Bookout?

9 MR. BOOKOUT: Mr. Chairman, I have long enjoyed
10 being a pay-free lawyer. It is not my suggestion, but it
11 seems like a good one. It was proposed by a non-member
12 but, as a member, I will submit it for consideration, and
13 that is that we don't remove this at all, and after the
14 word "shall", add "as prohibited by law". In other
15 words, "Neither the Council nor any of its committees shall,
16 as prohibited by law, receive, compile or discuss" -- would
17 that satisfy you?

18 CHAIRMAN MURPHY: Mr. Nordlicht?

19 MR. NORDLICHT: I really hate to give some sort
20 of an opinion. I'd rather give it back to the experts
21 to spend time on it rather than make a snap judgment on it.
22 If really forced to, I suppose I could think of something,
23 but --

24 CHAIRMAN MURPHY: But you're not willing to
25 withdraw your motion on the condition that this be modified?

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1 MR. NORDLICHT: That's right.

2 CHAIRMAN MURPHY: Yes, sir?

3 MR. BOOKOUT: Mr. Chairman, I merely meant to
4 offer it as a suggestion simply since some concern about
5 removing this statement was expressed, that perhaps there
6 is a way to retain the statement and still repair it.

7 MR. NORDLICHT: That's perfectly fine, but I
8 don't think we should do it right here.

9 CHAIRMAN MURPHY: All right. We are going to
10 vote this up or down in just a minute, but I might empha-
11 size here that if the amendment is voted down and we then
12 adopt the report, I think it's absolutely clear that there
13 are no legal implications and no legal clout whatever.

14 What we are concerned about is the public rela-
15 tions abstract and the appearance.

16 Now, if you wish to adopt the amendment remanding
17 this particular section to the Special Committee, then the
18 Special Committee can take into account the suggestion of
19 Mr. Bookout as put before the house on behalf of a non-
20 member.

21 Are there other suggestions or questions?

22 MR. O'SHIELDS: If you don't knock this section
23 out and we carry it forward to the request that the Secre-
24 tary has just submitted to us --

25 CHAIRMAN MURPHY: Well, I guess and answer to

1 that is that we are winding up four reports now --
2 (laughter) -- but aside from the usual caution, I think
3 this one has been aggregated.

4 Mr. McAfee's committee has spent \$700,000 of
5 the Council's money in getting this information aggregated.
6 I think that probably would have been done anyway, but it
7 is a little silly to deny to the Council study committees,
8 information that is already in the public domain. That
9 is a bit ludicrous.

10 MR. NORDLICHT: I have no problem with that, it
11 is the rest of it.

12 CHAIRMAN MURPHY: I think the question before
13 the house is clear. Those who favor adoption of the amend-
14 ment to the Committee resolution, let it be known by
15 raising your right hand.

16 (Show of hands.)

17 CHAIRMAN MURPHY: 13. Those who favor rejection
18 of the amendment, hold your right hand up.

19 (Show of hands.)

20 CHAIRMAN MURPHY: 20. The amendment fails. We
21 will now turn to action on the Committee resolution. Is
22 there further discussion of the unimpaired recommendation
23 of the Committee?

24 (No response.)

25 If not, those who favor adoption of the Special

1 Committee's recommendation, let it be known by saying
2 "aye".

3 (Chorus of "ayes".)

4 CHAIRMAN MURPHY: Contrary, "no".

5 MR. NORDLICHT: No.

6 CHAIRMAN MURPHY: We have one "no" vote, and
7 I think it would be proper to record that it is Mr.
8 Nordlicht.

9 Thank you very much, Mr. Chandler.

10 MR. CHANDLER: May we former sheriffs of
11 Nottingham retire?

12 CHAIRMAN MURPHY: Yes. Your work having been
13 completed, the Chair declares your committee resolved,
14 with great gratitude for having come back into the --

15 MR. CHANDLER: Thank you, Mr. Chairman.

16 CHAIRMAN MURPHY: The remaining matter is the
17 report of the Nominating Committee. Mr. Anderson?

18 MR. ANDERSON: Secretary Davis, Mr. Chairman,
19 the members of the Committee serving with me are Jack
20 Abernathy, F. D. Gottwald, Jr., Fred Hartley, Ruth J.
21 Hinerfeld, George F. Kirby, Jerry McAfee and Dean McGee,
22 Frank Pitts and John Swearingen.

23 The Nominating Committee is in unanimous agree-
24 ment that the current officers and standing committee
25 members have served the Council well, and should be

1 nominated for election to a second one-year term.

2 In the meeting this morning, after due delibera-
3 tion, considered nominations to vacancies on the Agenda
4 and Appointment Committees, which have occurred since the
5 1979 election, are expected in the very near future.

6 Accordingly, the Nominating Committee recommends
7 the re-election of Charles Murphy as Chairman, Bill Haynes
8 as Vice Chairman.

9 The Committee also recommended the following
10 individuals to serve as members of the Agenda Committee --
11 Jack M. Allen, John A. Carver, Jr., Edwin L. Cox, C. C.
12 Garver, Jr., Fred L. Hartley, Robert Mosbacher, R. L.
13 O'Shields, Robert V. Sellers, Rawleigh Warner, Jr.,
14 Alton W. Whitehouse, Jr., and W. F. Martin as Chairman.

15 For the Appointment Committee, the Nominating
16 Committee recommends Harold D. Hoopman as Chairman, John
17 F. Bookout, James W. Emison, Frederic C. Hamilton, Mary
18 Hudson, Thomas L. Kimball, Jeff Montgomery, James C.
19 Rosapepe, Robert E. Seymour, J. J. Simmons, Jr. and Robert
20 E. Yancey as members.

21 Mr. Chairman, this completes the report of the
22 Nominating Committee, and I move the Council elect the
23 individuals recommended by the Committee for Chairman,
24 Vice Chairman and members of the Agenda and Appointment
25 Committees.

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1 CHAIRMAN MURPHY: Is there a second to the
2 motion?

3 VOICE: Second.

4 CHAIRMAN MURPHY: Well, I don't want to cut this
5 off, I'm trying to keep a job here. As I told the
6 Nominating Committee this morning the pay is so lucrative
7 that I'm very easy to --

8 MR. ANDERSON: Question.

9 CHAIRMAN MURPHY: Those who favor adoption of
10 the Nominating Committee's report, let it be known by
11 saying "aye".

12 (Chorus of "ayes".)

13 CHAIRMAN MURPHY: Is there further business
14 to come before this august body?

15 MR. MASSELLI: Mr. Chairman, I wonder if I
16 might revisit the issue that we have just discussed, move
17 that the Council direct the Chairman and the staff to
18 prepare, for the Council's review at the next meeting, a
19 statement of policy on the selection and dissemination of
20 data. I think that would be a worthwhile endeavor.

21 CHAIRMAN MURPHY: In view of the discussion
22 here -- and we will take the congressional approach of
23 considering legislative history -- the Chair will adopt
24 that, and we will ask the staff and Council to respond
25 in an appropriate way, and that will be discussed -- not

1 as a Committee matter, but simply in a plenary discussion
2 at the next meeting of the Council. A sound suggestion,
3 Mr. Masselli.

4 Is there anything else?

5 Dr. Davis, are you ready to discharge us?

6 ASSISTANT SECRETARY DAVIS: I am, indeed.

7 CHAIRMAN MURPHY: Thank you for your patience
8 and cooperation.

9 The Committee Chairmen are asked to hang around
10 for a few minutes in case the trade press wants to ask
11 any questions.

12 Thank you. The meeting is adjourned.

13 (Whereupon, at 11:15 a.m., the meeting of the
14 National Petroleum Council was adjourned.)

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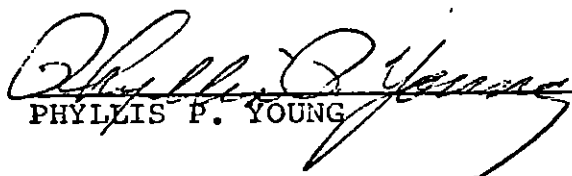
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This is to certify that the proceedings of the meeting of the National Petroleum Council were held in the Auditorium, Forrestal Building, L'Enfant Plaza, Washington, D. C., on Wednesday, June 11, 1980, as herein appears, and that this is the original transcript thereof.


PHYLLIS P. YOUNG